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CHAPTER V

STABILITY OF THE VALUE OF MONEY

I. Causes of Variations in the value of money: The quantity theory of money.

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I. Statement of the Quantity Theory of Money

What determines the value of money, that is, what determine the general range of prices? The value of money obviously is high when the general range of prices is low; for a given amount of money will then buy much of other things. Its value is obviously low when the general range of prices is high; for a given amount of money will then buy little of other things.

Says Irving Fisher, "The purchasing power, that is, the value of money is indicated by the quantities of goods which a given quantity of money will buy. The lower we find the prices of goods, the larger the quantities that can be bought by a given amount of money, and therefore the higher the purchasing power of money. The higher we find the prices of goods, the smaller the quantity that can be bought by a given amount of money and therefore the lower the purchasing power of money. The purchasing power of money is the reciprocal of the level of prices, so that the study of the purchasing power of money is identical with the study of the price level."

The quantity theory in its simplest form states that the value of money falls proportionately with an increase in the quantity of money and that the value of money rises proportionately with a decrease in the quantity of money. Thus its value varies inversely with the quantity available.

II. Resemblance between the Value of Money and of Goods in General:-

Money is only one of many economic goods. Its value therefore is primarily determined by exactly the same two factors as determine the value of any other thing, namely, the conditions of demand for it and the supply available. The conditions of demand for it depend partly on the habits and progress of the community and partly on the total volume of business transactions of all kinds which have to be performed within a given time with the aid of money. Given the condition of the demand the value of money depends on the quantity or supply of the means of payment. If fewer units were available there would be more work for each of them to do - each of them would have to exchange for a larger volume of other goods, and hence its value would be greater. If more units were available the value of each unit would be less. Thus the value of money resembles that of goods in that it is determined by the interaction of demand and supply.

III. Difference between the Value of Money and of Goods:-

There is one important respect in which the value of money is determined differently from the value of goods in

general. Other things being equal, the larger the number of units of money available the smaller in exactly the same proportion is the value of each unit. The smaller the number of units available, the larger in exactly the same proportion is the value of each unit. This constant and exactly proportionate relation between quantities and value does not hold good of any other commodity. No doubt the value of all goods, money as well as non-money will vary with quantity; in the case of money in exactly the same proportion; in the case of other goods it may not and generally does not vary in exactly the same proportion. Thus we double the quantity of wheat its value will probably fall to less than half of what it was before; ~~but~~ we double the quantity of money; its value will be exactly one half. We halve the quantity of wheat its value will probably rise to more than double of what it was before; ~~but~~ we halve the quantity ^{of} ~~and~~ money, its value will be exactly doubled.

IV. The Equation of Exchange:-

The purchasing power of money - the quantity theory of money is expressed by Irving Fisher in a formula which he calls the Equation of Exchange. The formula is as follows:

$$MV \text{ plus } M'V' = TP.$$

$$\text{Therefore } P = \frac{MV \text{ plus } M'V'}{T} \quad P = \frac{MV + M'V'}{T}$$

Let us explain what each symbol or factor in the equation denotes:

M = the quantity of money: the average amount of money in circulation during a given year. It consists of gold coins, token coins and paper money.

V = the velocity of circulation: the average number of times a year money is exchanged for goods. V is expressed by the quotient obtained by dividing the total money payments for goods in the year by the average amount of money in circulation through which these payments were effected. Velocity is also known as efficiency of money or rapidity of turnover.

M' = total deposits subject to cheques. We must note that deposits are outside the category of money because they are not generally acceptable. They however hold a definite relation to money - normally there is a definite ratio between M and M' .

V' = the velocity of circulation of deposits.

T = the total volume of trade, that is to say, the total volume of goods exchanged for money, within the country during a given year.

P = the average price paid; the general level of prices; the price - level.

$$M V \text{ plus } M' V' = T P \times$$

The quantity theory asserts that any change in M causes an exactly proportional change in P , provided there are no

concomitant changes in V , $V'M$ and T . In plain words, other things being equal variations in money produce proportionate changes in prices and therefore the value of money varies inversely with its quantity. The expression, "other things being equal" is used advisedly: it means that the proposition holds true provided there are no changes in the velocity of circulation of money, in the quantity of deposits, in the velocity of circulation of deposits and in the volume of trade. A change in one or more of these factors will vitiate the effect of a change in the quantity of money on the price level. For the quantity of money is only one of the several factors in our Equation of Exchange that determines the price level. All that we can assert is that other factors remaining unchanged, the value of money will vary inversely with its quantity, that is to say, the general level of prices will vary directly with the quantity of money.

Let us now suppose that each one of the factors in the Equation becomes active in turn and find out the effect of this activity on the price level.

i) The quantity of money: As the quantity theory itself states, increase or decrease in the quantity of money is followed by a corresponding increase or decrease in the general level of prices.

ii) Velocity of Circulation: An increase or decrease in velocity is followed by a corresponding increase or de-

decrease in the general level of prices.

iii) Volume of trade: An increase or decrease in T is followed by a decrease or increase in the general level of prices. Suppose we double the volume of trade; then it will halve the height of the price level because the same quantity of money is now called upon to do double the work and consequently the price level must sink about 50 per cent.

iv) So far we suppose that one factor changed at one time while other factors remain quiescent. Now let us suppose that two or more factors move simultaneously. Then the price level will be a compound or a result of the action and interaction of these several factors. Thus if the quantity of money is doubled, the velocity is halved and the volume of trade remains unchanged, then the price level will be undisturbed.

V. Criticism of the Quantity Theory:-

The various factors - money, deposits, velocity and trade - continually seek readjustment and their magnitudes are linked together by the equation $M V + M'V' = T P$.

Theoretically variations in money produce proportional changes in prices. In practice the price level is the effect of all the factors in the Equation. Failure to take due account of the assumption that all other factors remain the same or that other things being equal has been responsible for most

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of the controversies that have raged round the quantity theory. In the actual word of business these "other factors" are constantly changing. But this does not warrant us in condemning the Equation of Exchange as useless for in economics as in engineering, there is no way of discovering the operation of any force or law except under assumed conditions. Writing on the quantity theory of money Robertson says, "This tedious truism has some time been on the one hand elevated to the rank of a great discovery and on the other hand denounced as a pernicious falsehood. But no longer either a triumphant credo or a pestilent heresy, ~~the~~ the quantity theory of money remains as a dowdy but serviceable platitude."

II. Method of Measuring Variations in Value of Money Index Numbers.

1. Definition and Purpose of Index Numbers

The value of money is the quantity of commodities for which it can be exchanged, in other words its purchasing power. This depends on general level of prices. If general level is high, the value of money is low & vice versa. There is an up & down movement of the general level of prices. Not all prices move in the same direction & at the same rate; some move upwards, others steady, & some downwards but general trend is a high price level. The method of calculating the rise or fall in general level of prices is the that of the Index numbers.

When measurable phenomena such as prices & wages are influenced by special causes, to particular instances & causes general to all phenomena, we have to disentangle the general from the special.

To determine general causes we have to ^{measurement by} eliminate special causes. System of Index numbers are introduced to prices only. Thus we have index numbers for wages etc.

✓ II. Methods of Measuring Variations in the Value of Money:
Index Numbers.

I. Definition and Purpose of Index Numbers:-

What is the value of money? The value of any commodity is usually expressed by its price which is its exchange value in terms of money.

The value of money cannot be so expressed for we cannot express the exchange value of anything in terms of itself.

The value of money is the quantity of commodities for which it can be exchanged, in other words its purchasing power.

This depends upon the general level of prices. If the general level is high the value of money is low and vice versa.

There is a movement up and down of the general level of prices. Not all prices may move in the same direction and at the same rate: some move upwards, some remain steady and some move downwards but the general trend may be towards a high price level. What is the method of calculating the rise or fall in the general level of prices? The method is known as that of the Index Numbers.

When measurable phenomena such as prices or wages are influenced by -

- i) causes special to particular instances; and
- ii) causes general to all phenomena,

we have to disentangle the general from the special. Thus

the price of wheat is influenced by the weather, acreage under the crop and the nature of the harvest. These are special causes. But the price of wheat, of coal, of timber and all other commodities are influenced by their relation to the amount of money and the work that has to be done by it. These are general causes. To determine general causes, that is, to determine the general range of prices one has to eliminate the special causes. This is done by the method, of the index number. Says Bowley, "The amount of money tends to increase all or diminish all the prices, but its influence is concealed by the action of many causes affecting the separate groups of prices in various ways. Some commodities rise in price, some fall in price and some remain steady; no two commodities undergo the same change in the price. What then is the general trend or drift? The method of the index number helps us to disentangle that which is common to the whole group from those variations which are special to individual items".

The system of measurement by index numbers can be applied to things other than prices. Index numbers are not restricted to movements of price phenomenon. Thus we have index numbers of wages, of rents, of sales, of imports or exports and of cost of living.

II. How to Construct an Index Number of Prices:-

The different operations involved in the construction of an index number may be thus summarised:

Construction of Index number.

When constructing an index number the following should be taken into consideration.

(1) Base period — Prices of other periods to be

compared with the prices of standard period. A standard price in base period taken as 100. & prices of commodities are reduced into percentages of their prices at the base period. For standard we may take prices ruling on a single day or average prices for a year or for a decade.

(2) Selection of Commodities — Large & representative.

It should contain food grains, raw materials, some grades of manufactured commodities & principal articles of production, consumption & trade. Manufactured goods are usually left out because they are continually altered in quantity as a consequence of improved techniques.

The formula number for many well known index number is 45; & most famous is Sauerbeck's Index Number of Goods India.

Depth of statistics is 100 commodities.

(3) Collection of Price Quotations — Reliability of

index number depends on the truth of original price quotations. We must get most representative example from the most representative market from the most typical seller or dealer, making allowance for quality, substitutes etc. — We take wholesale & not retail prices into account while constructing index number, because they apply more accurately to a larger & known area.

(4) Averaging — Different writers use different averages, viz, arithmetic, geometric, median & harmonic. Arithmetic is used because it is easy to compute, furnishes definite meaning & representation of all commodities selected for the index number.

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i) The selection of a standard or base period: One period is to be selected as the standard or base period. The prices of the other periods are to be compared with the prices of the standard period. The actual prices in the base period are taken as 100 and the prices of the commodities are reduced into percentages of their prices at the base period. For the standard we may take the prices ruling on a single day or the average prices for a year or for a decade. The longer the period selected for the base the better it is, because exceptionally high or exceptionally low quotations are less likely to last for a year than for a day and less likely to last for a decade than for a year.*

ii) Selection of Commodities: The list of commodities selected must be large and representative. It should contain food grains, raw materials, some grades of manufactured commodities and the principal articles of production, consumption and trade. Commodities which are substantially uniform from market to market and from year to year are preferable. Manufactured goods are usually left out because they are continually altered in quantity as a consequence of improved technique or improved taste. The favourite number for many well known index numbers is 45 due to the example of the famous Sauerbeck Index Number. The index number published by the Department of Statistics of the Government of India is based upon 100 commodities.

iii) Collection of Price Quotations: The reliability

of an Index Number depends upon the truth of the original price quotations. For any great staple there are varying prices for varying grades, for large lots, for small lots, in different localities for different dealers on different days. We must get the most representative example in the most representative market from the most typical dealer or seller, making allowances for changes in quality, for substitutes and for concealed factors. Prices quoted for the same commodity in succeeding years must be for the same quality of the same commodity. We should take wholesale and not retail prices as they are more accurately known and apply to a larger area.

III. Averaging: What is the kind of average of prices we are to use in computing the Index Number:-

Different writers have used different averages, namely, the arithmetic, the geometric, the median and the harmonic. If we use the arithmetic average as the average price of an article through a period, we simply add the terms of the series of prices and divide by their number. In most cases, the arithmetic average is used because it is easy to compute, it is familiar, it is definite in meaning and it is representative of all the commodities selected for the Index Number.

IV. Criticism:-

Says Marshall, "It is doubtful whether any index number has been or can be constructed which gives a tolerably correct

5. Criticism: - No index number ^{can be} ^{used} ^{to} ^{constitute} ^{what} ^{has} ^{been} ^{able} ^{to} ^{give} ^{an} ^{exact} ^{rep} ^{resentation} ^{of} ^{changes} ⁱⁿ ^{general} ^{purchasing} ^{power} ^{of} ^{money} ^{for} ^{universal} ^{use}.

Accuracy & Serviceability ^{of} ^{I. N.} ^{depend} ^{on} ^{several} ^{conditions},
namely, right choice of base period, upon the kind of average used in
computing the index, upon a number of articles selected etc.

An index number is not a ~~perfect~~ perfect measure of
variations in the price level. Index number indicates only
a general tendency.

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presentation of changes in the general purchasing power of money for universal use". The accuracy and serviceableness of Index Number depends upon several conditions, namely, upon the right choice of the base period, upon the kind of average used in computing the index, upon the number of articles selected, upon the amount of each article, upon the degree of permanence in the character and quality of each article, upon the kind of prices used whether wholesale or retail, upon the accuracy of the price quotations and upon the extent of territory within which the price observations may be regarded as applicable. These conditions are seldom fulfilled and therefore commonly speaking an Index Number is not a perfect measure of variations in the price level.

V. Index Number Illustrated:-

The following is an illustration of the method of constructing an Index Number:

	Actual Prices in Rs.			Price Relatives.		
	1890	1900	1910	1890	1900	1910
Wheat per bushel	2-0-0	2- 8-0	2-12-0	100	125	137 ✓
Rice per bushel	3-0-0	2- 0-0	2- 8-0	100	66	83
Steel per ton	60-0-0	50- 0-0	40- 0-0	100	83	67
Sugar per lb.	0-8-0	0-12-0	0-10-0	100	150	125 ✓
Coal per ton	8-0-0	7- 0-0	8- 8-0	100	87	106
Tea per lb.	1-0-0	1- 4-0	1- 2-0	100	125	112 ✓
Index Number				100	106	105
				$\frac{600}{6}$	$\frac{636}{6}$	$\frac{630}{6}$

III. Effects of Changes in the Value of Money:
Consequences of rising Prices and falling Prices.

I. Introductory:-

Money is only important for what it will procure. Thus a change in the monetary unit which is uniform in its operation and which affects all transactions equally has no consequences. If by a change in the established standard of value a man received and owned twice as much money as he did, Before in payment for all rights and for all efforts, and if he also paid out twice as much money for all acquisitions and for all satisfactions he would be wholly unaffected. It follows therefore that a change in the value of money, that is, in the level of prices is important to society only in so far as its incidence is unequal. Such changes produce vast social consequences, because when the value of money changes it does not change equally for all persons and for all purposes. A man's receipts and outgoings are not all modified in uniform proportion. As Keynes says, "A change in money generally affects different classes unequally, transfers wealth from one person to another, bestows affluence here and embarrassment there, exerts an influence on the volume of savings and the amount of production. There is in fact a distortion of values because of the inequality in the rate of movement of the prices of different commodities".

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II. Economic and Social Effects of Rising Prices: Depreciation:-

i) Creditors loose and debtors gain. The debtor, though repaying the same amount of money that he borrowed is returning a less value in terms of commodities because the purchasing power of money has fallen. In other words, if prices increase the principle^{al} of a loan represents less purchasing power at the time of repayment than at the time the loan was made.

ii) Businessmen gain. Wages and interest costs lag behind while the prices of the product go up.

iii) Persons with fixed incomes suffer. The same money income will now purchase a smaller amount of commodities than before.

iv) Wage earners will loose. Ordinarily the two movements, prices and wages are not parallel. The one lags behind the other. In other words money wages do not generally rise as quickly as prices. The result is that the real earnings of the wage-earners as measured by the purchasing power of the wage are diminished during the period.

III. Economic and Social Effects of Falling Prices: Appreciation:-

i) Creditors gain and debtors lose. The creditor though getting back from the debtor the same amount of money

will now get from the debtor ^a higher value in terms of commodities.

ii) The businessman loses. He pays out as much per unit of labour as before and receives less per unit of product, because prices fall ^{faster} ~~forth~~ than wages.

iii) Persons with fixed incomes gain because of the increase in the purchasing power of their incomes.

iv) Wage earners gain. The same money wages will now buy more commodities, on account of the increased purchasing power of money.

IV. Changes in the Value of Money as Affecting Production:-

Says J.M. Keynes, "The individualistic capitalism of to-day precisely because it entrusts savings to the individual investor and production to the individual employer presumes a stable measuring rod of value and cannot be efficient - perhaps cannot survive - without one". A considerable part of the business risk arises out of fluctuations in the value of money during the interval which must elapse between the commencement of production and the time of consumption. The risk arises out of the instability in the measuring rod. The process of production is lengthy. During this lengthy process the business people incur outgoings in terms of money; They expect to recoup this outlay by disposing off the products

for money at a later date. They undertook production on the assumption that in the meanwhile there would be no change in the value of money. But the price-level might actually rise or fall. They stand to gain by a rise in general prices and loose by a fall in general prices.

V. Conclusion:-

Are rising, falling or steady prices the best? Says Chapman, "Prices which neither rise nor fall in general and are undisturbed by fluctuations are best on the whole for the community". Says Todd, "What is wanted is neither rising nor falling prices, but steadiness of the general level of prices, that is to say, stability of the value of money. This is precisely where the world's present monetary system falls short of perfection."

Suggested Remedies against alterations in the value of money: Monetary Reform

A. Instability in the purchasing power of money:

The instability of prices, going upwards & downwards, & the evil ascribable to the changes have led to various proposals of monetary reform. The extraordinary rise in prices during and after the ^{first} war, & the unprecedented fall in prices after a recent year has accentuated the demand for some radical improvement.

Among devices suggested are: complete elimination of specie, elimination of specie & the standard for deferred payments.

B. The Multiple & the Tabular Standard of Value:

Designed to remedy injustices between debtors & creditors with out displacing specie as medium of exchange. It is the standard for deferred payments i.e. liquidating debts. Most business transactions are on credit; payments being deferred until after goods are produced or sold. Steadiness in standard of deferred payments will prevent creditor as well as debtor from making undesired gains or losses through change in value of money.

Tabular Standard based on Index number of prices of commodities which is constructed by impartial official authority. According to T.S. the principal of the debt would be increased with an increase of prices as shown by the index number, and would be reduced if the price of ^{decrease} ~~shown~~ by index number decreases. If index number rises from 100 to 110, man who has borrowed Rs 100 must pay Rs 110. If it decreases from Rs 100 to 90, the man who has borrowed Rs 100 need pay only Rs 90. Advocates of this standard say that it maintains justice between debtors & creditors providing for the repayment of the same amount of goods with the same amount of money.

✓IV. Suggested Remedies Against Alterations in the value of Money: Monetary Reform

I. Instability in the purchasing power of money:-

The repeated experiences of changes in prices, upwards and downwards and the evils ascribable to the changes have led to various proposals for monetary reform. The extraordinary rise which took place the world over during and after the great war, and the unprecedented fall in recent years has accentuated the demand for radical improvement. Among the devices suggested some have looked to the complete elimination of specie - abandonment of the Gold Standard; others have had in view the elimination of specie as the standard for deferred payments only. It is quite conceivable that gold should remain the basis of the current medium of exchange but that some special and separate arrangement should be made for the settlement of debts and deferred payments.

II. The multiple standard or the tabular standard of value:-

This standard is designed to remedy the injustices between debtors and creditors without displacing specie as the medium of exchange. It is a standard for deferred payments, that is the liquidation of debts. In the modern business world the great majority of business transactions are done on credit; the payments are deferred until after the goods are produced or the goods are sold. There must,

Objections

- (1) Serious difficulty in computing a reliable index number. Different results reached by different methods & calculations.
 - (2) Confidence and calculability limits.
- Clear to exist in transactions involving postponed payment.
- Commercial ~~standards~~ transactions would be considered marked by
greater, actual competition less smooth & less effective.

be steadiness in the standard of these deferred payments as that will prevent creditor as well as debtor from making undeserved gains or losses through changes in the value of money.

The tabular standard is based upon the index number of prices of commodities which is constructed by an impartial official authority. According to the tabular standard the principal of the debt would be increased with an increase of prices as shown by the index number and it would be decreased with a decrease in prices as shown by the index number. Thus if the index number rises from 100 to 110, let the debtor who has borrowed Rs. 100 pay back Rs. 110; for only by the repayment of this larger sum does the creditor get as much in the way of commodities as he gave. Conversely if the index number falls from 100 to 90 let the debtor pay back Rs. 90 for every Rs. 100 borrowed.

Advocates of the tabular standard declare that it maintains justice between debtor and creditor by providing for the repayment of the same amount of goods though not the same amount of money. Neither the debtor nor the creditor is allowed to gain or loose through fluctuations in the value of money.

Objections against the multiple standard:

- i) There is the serious difficulty of computing a reliable index number - the uncertainty of and the varying

C. Stabilized Dollar - Compensated Dollar

Proposed by Irving Fisher. According to him the content of the gold dollar to be changed according to the movement of prices.

When index number of prices are rising, a greater number of grams of gold go into the gold dollar & therefore the number of dollars from a given quantity become less. Similarly, when prices go down, less grams of gold go into the dollar, & therefore the number of dollars from a given quantity ~~become~~ become more.

Coin need not be in circulation; instead gold certificates are issued which will be a claim of the public reserve of specie. But the gold dollar obtainable on presentation of the certificate will be ^{however} higher or lower according as the prices are rising or falling.

There is no such uncertainty in stabilized dollar scheme as in that of the multiple standard. There is variation only in gold content of the dollar. It would not disturb the general public but only those who handle gold bullion for sale & for export, would have to face the fact that the dollar was a changing thing.

Objections: - Plan rests on a fictitious simplified form of the quantity theory. Operation would be irregular & unpredictable with surpluses & disapprovements. It would be exposed to the faults & from of popular clamour. It came in ^{with} unflinching persistence, Fisher says there will not be a smooth & even level price, but a greatly approximate long period stability that the unadjusted specie standard.

results reached by different methods of constructing index numbers.

ii) Confidence and calculability would cease to exist in all transactions involving postponed payments. No man would know when contracting a debt what he would be called upon to repay when it became due. The speculative element in all commercial transactions would become more marked, risks greater, the action of competition less smooth and less effective.

III. Stabilized Dollar or Compensated Dollar:-

This standard is proposed by Irving Fisher. According to him the content of the gold dollar is to be changed according to the movement of prices. When the index number shows that prices are rising, a greater number of grains are to go into the gold dollar and thereby the number of dollars from a given quantity of bullion becomes less. When prices go down, less grains go into the dollar and thereby, the number of dollars is enlarged. Coins are not to be in circulation at all; instead, gold certificates will be issued which will be a claim on the public reserve of specie. But the gold dollars obtainable on their presentation at the Government treasury would be heavier or lighter according as prices were higher or lower. For a given face value of the certificates some times a greater weight of the metal and some times a smaller weight would be given.

III. D. The Gold Standard - The best available standard.

For keeping monetary structure on an even level, there is no better method than that of pegging solid specie the basis of the circulating medium.

Essential Advantage is that available quantity of gold rests in the end on the limitations of the physical nature & therefore not subject to the caprice of man.

The best check against irregular fluctuations in the volume of money and also irregular fluctuations in the use of credit substitutes for money is that money with reference to gold. So long as this is the case the world over there will not be much change or ^{fluctuation} ~~fluctuation~~ along time. The gold standard is not a perfect arrangement; but it is the best available & the best workable system that we have.

While under the multiple standard there is uncertainty in contract^{ual} dealings on account of the variations in the number of dollars involved in the payment of debts, under ⁿthe stabilized dollar plan there is no such uncertainty. There is no variations in the number of dollars; there is variation only in the gold content of the dollars. The plan would not disturb the general public, but only those who handle - gold bullion for the arts and for exports would have to face the fact that the dollar was a changing thing.

Objections against the stabilized dollar:

The plan rests on a fictitiously simplified form of quantity theory. It would operate irregularly and unpredictably with surprises and disappointments. It would be exposed to all the froth and foam of popular clamour. But in the words of Irving Fisher, "If carried out with unflinching persistence the stabilized dollar would achieve the end, not indeed of a smooth and even level of prices but of a greater approximation to long period stability than the unadjusted specie standard".

IV. The Gold Standard - the best available standard:-

Towards keeping the whole monetary structure on an even keel, no better method seems available than that of making solid specie the basis of the circulating medium. The gold standard has the essential advantage that the available quantity rests in the end on the limitations of physical

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Securely
nature and therefore not subject to the caprice of man. In a world which cannot break suddenly with the past, proposals for monetary reform quite out of accord with established ways are impracticable. The best check against irregular fluctuations in the volume of money and also irregular fluctuations in the use of credit substitutes for money is that it (money) shall rest securely on gold. In the world over, so long as this is the case, there will be neither very wide changes in price in the course of any one generation nor very abrupt fluctuations at any time or in any country. The gold standard is not a perfect arrangement; but it is the best available and the best workable system that we have. Says Robertson, "The value of a yellow metal, originally chosen as money because it tickled the fancy of savages, is clearly a chancy and irrelevant thing on which is based the value of our money and the stability of our industrial system."

..... The gold standard is liable to be upset by the discovery of new mines or processes of mining or by a decision on the part of some state to achieve the gold standard or another state to abandon it, by the hoards in Asia and by the caprice of the bankers in London or New York. But on the whole experience has taught us that it is, practically speaking the best available standard and there seems to be no likely alternative to it."